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SUBJECT: AIYAR DEFENDS IRAN-INDIA OIL AND GAS RELATIONSHIP

REF: A. STATE 24948

- [1](#)B. NEW DELHI 300
- [1](#)C. 2004 NEW DELHI 7089
- [1](#)D. 2004 STATE 177574
- [1](#)E. 2004 NEW DELHI 4871
- [1](#)F. 2004 NEW DELHI 4590
- [1](#)G. 2004 NEW DELHI 1770
- [1](#)H. 2004 STATE 166919
- [1](#)I. 2004 STATE 108728

Classified By: Ambassador David C. Mulford, Reasons 1.5 b,d

[1](#)1. (C) Summary: In a February 11 meeting with the Ambassador, Indian Petroleum and Natural Gas Minister Mani Shankar Aiyar said that India's national security compelled it to look towards Iran for natural gas. He pointed out that India is competing in Iran with many others, including some of the United States' close friends and allies. By seeking oil and gas relationships with Iran, India is merely ensuring it would be well-positioned when the "Iran problem" is resolved, he added. He also asserted that Indian investment in the Iranian oil and gas sector is some distance in the future, and perhaps the Iran will not be of as much concern by then. Aiyar contended that a major "strategic" hurdle had been crossed with the Indian cabinet's decision on February 10 to authorize him to pursue energy deals with Iran and Pakistan. Aiyar said he anticipates the negotiations to be neither quick nor easy. He said he is fully supportive of the Economic Dialogue and would welcome results-oriented exchanges on energy issues. Aiyar was very optimistic about India's hydrocarbon potential. He was pleased with the response he received from American companies during his recent Houston visit. Aiyar believes that entry of a major American company into India's upstream oil and gas sector will provide international credibility for India's hydrocarbon potential. In contrast to his often provocative and sometimes anti-American pronouncements and writings, Aiyar was thoughtful, reasonable and insightful. The Ambassador urges Energy Secretary Bodman to consider an early visit to India. Such a visit would help support our transformed bilateral relationship with India. It is also important we engage at high levels with a country that is likely to play an important role in the global oil and gas markets in the future. End Summary.

India-Iran Cooperation

[1](#)2. (C) In a February 11 meeting with Indian Petroleum and Natural Gas Minister Mani Shankar Aiyar, the Ambassador raised USG concerns about Indian investments in the development of Iran's petroleum resources given Iran's nuclear activities and its support for terrorism. The Ambassador said he recognized India's growing energy needs but was obliged to alert India to our concerns, which are based on US policy and US law.

[1](#)3. (C) Aiyar responded that India's energy security and, by extension, its national security compelled it to look towards Iran for gas. He described briefly the explosive growth in India gas demand. Current Indian production of 90 million cubic meters per day (mcmd) is about ten times higher than in the 1980s. Yet, it falls far short of demand, which is estimated at 150 mcmd and projected to increase to 400 mcmd in 20 years. Given this shortfall and the absence of adequate alternative sources, according to Aiyar, India is forced to turn to Iran, the country with the second biggest gas reserves in the world. New discoveries in India and new sources of gas -- Bangladesh, Myanmar, Indonesia, Turkmenistan -- may reduce Indian reliance on Iranian gas, but he sees no alternative to trying to source as much gas from Iran as possible.

[1](#)4. (C) Secondly, Aiyar continued, India is only competing for oil and gas relationships in Iran with many others -- Japan, European countries, China -- some of whom are the United States' close friends and allies. (Note: Aiyar clearly implied that the United States should first ask its

friends to back out of the Iran oil and gas sector before pressing India to do so. End Note.) Thirdly, according to Aiyar, India did not want to be in the position it found itself in with Libya. It had refrained from seeking hydrocarbon relationships in Libya due to United States sanctions. When sanctions were lifted, American companies quickly moved in, leaving India out in the cold, he said. The effect of United States policy to discourage other countries from Libya was to preserve the Libyan oil and gas sector for American oil and gas interests, he observed. By seeking oil and gas relationships with Iran, India was merely ensuring it would be well positioned when the "Iran problem" is resolved, Aiyar explained.

15. (C) Lastly, Aiyar asserted, Indian investment in the Iranian oil and gas sector is some distance in the future, and perhaps Iran will not be of as much concern by then. Showing a clear preference for a multilateral solution, he noted that India was working with the United States within the IAEA to address international concerns about Iran's nuclear activities. He claimed that India has made clear that Iran must adhere to its treaty obligations. Aiyar closed the discussion on Iran by saying that India will keep an eye on evolving international efforts to resolve concerns about Iran, but he does not see India stepping back from relationships in the Iranian oil and gas sector at this time.

Iran-Pakistan-India Pipeline

16. (C) Aiyar contended that a major "strategic" hurdle had been crossed with the Indian cabinet's decision to authorize him to pursue energy deals with Iran and Pakistan (as well as Burma and Bangladesh.) He said this move will reassure the Pakistanis and Iranians who naturally wondered whether he had the backing of the Cabinet. They will now recognize that "I am not a wild card," he noted.

17. (C) Aiyar will begin discussions with the Iranian Oil Minister the week of February 14 during the Asian Gas Buyers' conference in Delhi. He fears that if India is not involved in any Iran pipeline discussions up-front, it will lose any influence on the pricing. If the price differential between LNG and pipeline gas at the Indo-Pak border is narrow, then India will opt for LNG, he asserted. Trying to dampen any expectations of an imminent agreement, Aiyar said he anticipates the negotiations to be neither quick nor easy as the Iranian are hard bargainers. "The process is only beginning," he noted, and will be long drawn out.

Economic Dialogue

18. (SBU) The Ambassador described the Economic Dialogue (ED) framework, in which the 5 tracks are retained because they serve a useful purpose, but the leadership of the ED is elevated so that key issues can be lifted to the White House/Prime Minister's Office level. A new CEO's forum will be added to advise policy makers on what needs to be done to remove structural impediments to greater trade and investment ties. The Ambassador felt that energy companies should be included in this forum.

19. (SBU) Aiyar responded that Indian Ambassador Ronen Sen had briefed him about the ED. Aiyar said he is fully supportive of the ED. Any restructuring of the ED is acceptable to him if it encourages greater energy-related ties between the two countries. He would like results-oriented exchanges on energy issues. His priority for such exchanges would be for American companies to study India's hydrocarbon potential and "advise us on how best to utilize it." He also wants an institutionalized and continuing, not sporadic, intellectual exchange between Indian and American companies and institutes.

Aiyar's Road Show

10. (SBU) Aiyar, who was in Houston last month to promote interest in India's fifth round of exploration and production leasing, said he was witnessed an enthusiastic response from American companies. The companies he met with were pleased with the policy framework and the incentives in the National Exploration Licensing Policy. He did not know whether this interest will manifest itself in greater bidding for the leases, although he sensed a changing perception about India's potential in the eyes of American companies. Aiyar believes that unless a major American company enters India's upstream oil and gas sector, there will be no international credibility for India's hydrocarbon potential, which is completely open to foreign investment.

11. (SBU) Aiyar was particularly impressed with his visit to ExxonMobil's \$2 billion research and development facility in Houston. He lamented that Indian companies are not spending

as much on R&D. He pledged to strengthen institutional relationships with organizations such as the US Chamber's hydrocarbon committee, the Canadian Petroleum Institute, and the University of Alberta.

12. (SBU) Aiyar referred to his meeting in Houston January 31 with DOE Director Robert Price and regretted he could not meet with Energy Secretary Bodman as he had not yet been confirmed. The Ambassador expressed his hope that the Energy Secretary, who has a great interest in India, could visit

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this year. Aiyar said he would warmly welcome such a visit. He asked whether it was appropriate now, with the Energy Secretary sworn in, to write or call to congratulate him.

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The Ambassador encouraged Aiyar to do so.

Bay of Bengal: South Asia's North Sea?

13. (SBU) Aiyar spoke at length about India's hydrocarbon potential, noting that known oil and gas reserves in a belt from the Gulf to Indonesia suggest that the Bay of Bengal may have huge gas deposits. The 2003 discovery by Reliance in the Krishna-Godavari basin and subsequent discoveries by Cairns and ONGC further strengthen the case. Aiyar said he wants to change the perception of the international community and Indians of India as a hydrocarbon-poor country.

14. (SBU) The problem, according to Aiyar, is South Asia's geology. Over 95 percent of India's potential deposits are in soil formations that are only 60 million years old while most of the world's oil and gas deposits are in formations that are 300 million years old. Secondly, Indian deposits are covered by a vast volcanic layer. Both these peculiarities pose challenges for exploration in India. Aiyar wants to encourage scientific discussion with American companies and institutions to help India better address these challenges.

15. (SBU) Aiyar said he has come up with two additional ideas for expanded US-India ties in the energy sector. He expects much of India's oil and gas reserves will be found in deep water. The United States, with its experience in deep sea exploration and production in the Gulf of Mexico, has great potential for providing technology transfer to India. Second, Aiyar noted a decline in oil and gas production in Texas, with West Texas Intermediate output down 60 percent in the last 10 years. According to him, the exploration, drilling and production assets that are being made idle could be redeployed, in part, to India.

Comment

16. (C) In contrast to his often provocative and sometimes anti-American pronouncements and writings, Aiyar was thoughtful, reasonable and insightful. He stood his ground firmly on Iran, but did not use the opportunity to vent against our approach, something he may have been quick to do in earlier incarnations. We were impressed with his candor and his forthrightness. He took pains to wave his welcome to American energy companies. He was also eager to open a dialogue and relationship with the Department of Energy, building on his well received interactions with DOE and U.S. industry in Houston last month.

17. (C) The Ambassador urges Energy Secretary Bodman to consider an early visit to India. Besides being one of the world's fastest growing economies, India is also one of the fastest growing oil and gas consumers and importers. It is important we engage at high levels with a country that may play an important role in global energy markets in the future. A visit by Secretary Bodman would also help support our transformed bilateral relationship with India. Such a visit would establish relationships that may allow us to exert some influence on Indian oil and gas activities in countries such as Iran. Finally, a visit by the Energy Secretary would help convey momentum and focus to an active

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but sometimes drifting set of cooperative activities under the Energy track of the bilateral Economic Dialogue.

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